



**COLLEGE OF BUSINESS, PEACE, LEADERSHIP, AND GOVERNANCE**

**NMEC 402: INTERNATIONAL ECONOMICS [FINANCE]**

**END OF FIRST SEMESTER EXAMINATION**

**APRIL 2023**

**DR SAUNGWEME**

**DURATION: 3 HOURS**

---

**INSTRUCTIONS TO CANDIDATES**

- 1) ANSWER ANY ONE QUESTION
- 2) ALL QUESTIONS CARRY EQUAL MARKS

## QUESTION 1

- (a) Critically examine the monetary approach to exchange rate determination. [15 marks]

- (b) The following table presents the balance of payment summary for Zimbabwe in 2021.

Use the information to answer the questions that follows.

Item description	US\$ millions
Exports f.o.b	3558.3
Imports f.o.b	6306.3
Non-factor service:	
Receipts	283.6
Payments	1147.0
Income:	
Interest - receipts	2.7
- Payments	206.0
Other income – receipts	290.6
- payments	975.6
Transfers:	
Receipts	1688.1
- o/w <i>Humanitarian Assistance</i>	735.0
- o/w <i>Diaspora Remittances</i>	837.0
Payments	25.7
Grants	369.4
o/w <i>Technical Assistance</i>	48.0
Direct investment (net)	473
Portfolio Investment (net)	130.3
Long Term Capital – Loans:	
Government:	
- receipts	204.6
- payment (scheduled)	130.3
Private sector:	
- receipts	1368.0
- payments	255.0
Short term capital -Loans:	
Government	00.00
Private	696.2
Change in DMBs NFA	63.1
Errors and omissions	-122.2
GDP (market prices)	12151.0

- (i) Calculate the current account balance for Zimbabwe in 2021 [5 marks]
- (ii) Compute the current account balance as a percentage of GDP in 2021. [2 marks]
- (iii) Calculate the capital account balance for Zimbabwe in 2021. [5 marks]

- (iv) Calculate the country's overall balance of payment in 2021. [5 marks]
- (v) Based on your answer in question 1b(iv), discuss the possible policy interventions in the economy to ensure sustainable economic growth and stability. [8 marks]
- (c) Using the national income accounting theory, discuss how the external sector is linked to the internal balance in an open economy. [10 marks]
- (d) Discuss the economic implications to a country of joining an existing economic union. [10 marks]

**[TOTAL MARKS] 60**

## QUESTION 2

- (a) Differentiate between the following:
  - (i) Trade creation and trade diversion. [6 marks]
  - (ii) Absolute purchasing power parity and relative purchasing power parity. [6 marks]
- (b) Critically discuss the three automatic balance of payment adjustment mechanisms. [18 marks]
- (c) Critically discuss the Dornbusch stick price model of exchange rate determination. [15 marks]
- (d) Compare and contrast the benefits and costs to Zimbabwe of being in COMESA customs union than in SADC customs union. [15 marks]

**[TOTAL 60 MARKS]**

## QUESTION 3

- (a) Discuss the following balance of payment adjustment mechanisms:
  - (i) Marshal learner elasticity approach. [8 marks]
  - (ii) Absorption approach. [8 marks]
- (b) Evaluate the effectiveness of devaluation as an effective way of correcting a balance of payment disequilibrium in Zimbabwe. [12 marks]
- (c) With reference to a specific African country in sub-Saharan Africa, discuss the various government intervention strategies and policies in international trade that should:
  - (i) Promote an economic rebound and sustainable growth. [8 marks]

(ii) Help in lessening the impact of future negative global economic and financial shocks.

[8

marks]

(d) With reference to an African country of your choice, discuss the possible solutions to the problem of capital flight.

[16 marks]

**[TOTAL 60 MARKS]**

**END OF EXAMINATION**